

Financial Statements

City of Ithaca

**Ithaca, Michigan
June 30, 2007**



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF ITHACA	County GRATIOT
Fiscal Year End 6-30-07	Opinion Date 10-8-07	Date Audit Report Submitted to State 11-8-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

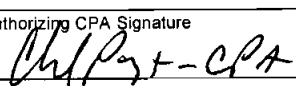
YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	NO OTHER REPORTS DESCRIBED	
Certified Public Accountant (Firm Name) ROSLUND, PRESTAGE & COMPANY, PC, CPA'S		Telephone Number 989-463-6123	
Street Address 308 GRATIOT AVENUE		City ALMA	State MI
Zip 48801			
Authorizing CPA Signature 	Printed Name CHAD PAYTON, CPA	License Number 21946	

City of Ithaca
June 30, 2007

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Ithaca
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ithaca (the City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

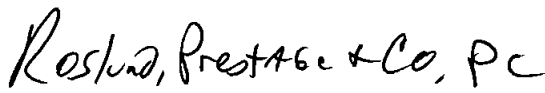
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information in this report are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Roslund, Prestage & Company, P.C.
Certified Public Accountants

October 8, 2007

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of the City of Ithaca, Michigan (the "City"), we offer readers of the City's financial statements, this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2007. The management's discussion and analysis (MD&A) is intended to assist you in focusing on significant financial issues and provide an overview of the City's financial activity. This annual financial report is presented in conformity with the requirements of GASB Statement No. 34. The basic financial statements include two types of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's financial position. The remaining statements are fund financial statements that focus on individual sections of the City's operations. The City encourages readers to consider the following information in conjunction with the financial statements taken as a whole, which follow this section.

Financial Highlights

- The net assets of the City are the amount by which the City's assets exceeded its liabilities. At June 30, 2007, net assets of the primary government totaled \$9,382,928. The unrestricted portion of this amount, \$3,293,233 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$65,659. This increase resulted from a decrease in net assets of the business activities of \$17,721 and an increase in net assets of governmental activities by \$83,380. The increase, though slight, was achieved by careful spending in a struggling economy for the State of Michigan and a market turnaround for interest rates. The State of Michigan is experiencing a budget crisis; however one message has been constant from both the State Legislature and Governor Granholm. This message is that State Revenue Sharing should not be cut. Throughout the budget proposals, the amount paid to communities has been frozen to a slight increase. Most recently, a freeze (the payment in 2008 would be the same as that received in 2007) has been favored. The City continues to budget for a slight decrease should the funds be cut by an Executive Order by the Governor anytime during the fiscal year. This will continue to position the City to be fiscally responsible.
- At June 30, 2007, the City's governmental funds reported combined ending fund balances of \$1,255,250. This is an increase of \$76,956 from the prior year. Of the total fund balance for governmental funds \$1,231,551 is available for spending at the City's discretion (unreserved fund balance).
- The City's long-term debt consists of a debt for a Fire Truck in the non-major governmental activities, compensated absences for full-time employees, and enterprise bond funds. A detailed schedule of the City's long-term obligations can be found in the notes to financial statements.

- In November of 2006, City electors passed a millage for the issuance of General Obligation Bonds in the amount of \$4,100,000 for the improvements to the City's Water Supply and Sewage Disposal Systems. Included with the improvements were the purchase of a new Sewer Vactor, new Lift Station pumps, watermain upgrades, and an Aquifer Analysis. The bonds were issued in April of 2007 and are due in annual installments of \$170,000 to \$210,000 with annual interest rates of 4.25% to 4.40% through November of 2037. The bonds received a rating of Baa1 by Moody's Investors Service, reflecting the City's modest but stable tax base, well managed financial operations, and debt burden that is expected to remain affordable despite the slow amortization rate. If not for the economic condition of the State of Michigan, the next highest rating would have been received. The first millage was applied to the 2007 summer property tax collection at a rate of 3.0 mills.
- Liberty Renewable Fuels, LLC began construction of Michigan's largest ethanol plant in the North Star Renaissance Zone, located in the City through a Public Act 425 transfer of property. The project is being built for an estimated \$160 Million. Conservatively, if the taxable value is one-third of the construction value, it will match the taxable value of the City at an estimated \$52 Million. The property is located in the Renaissance Zone, which is tax free with the exception of bond indebtedness. The City passed a bond indebtedness millage (as discussed in the prior point) authorizing the borrowing of \$4,100,000. The financial impact with the Liberty Renewable Fuels project will be that the millage needed to pay this bond by the rest of the community will virtually be cut in half upon build-out of the project.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements are divided into three categories:

- *Governmental Activities* – The majority of the City’s basic services are included here and are principally supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, public safety, streets, library, cemetery, and economic development.
- *Business-type Activities* – The City charges fees to customers to help it cover the costs of providing certain services. The City’s Water Supply and Sewer Disposal Systems are included here.
- *Component Units* – The City (known as the *primary government*), also has a legally separate authority for which the City is financially accountable. The Downtown Development Authority is a separate authority and it’s financial information is reported here.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how cash and other financial assets can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps to determine whether there are more or fewer resources that can be spent in the near future to finance City programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, you will better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains seven major and nine non-major individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and all major special revenue and capital project funds. Data from the non-major governmental funds are combined in a single column presentation on the governmental funds statements. Individual fund data for each of these non-major governmental funds is provided in the combining statements section of this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. Budget comparison statements have also been provided for the other major funds. These can be found in the required supplementary information section of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water Supply System and Sewage Disposal System. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Equipment and Material Funds. The services of the Equipment and Material Funds predominantly benefit governmental rather than business-type functions, and have been included in their entirety within governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City uses fiduciary funds to account for its employee benefit obligations and funds held by the City in an Agency capacity (i.e. property taxes due to other taxing agencies).

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information as required by GASB statement 34 regarding the City's budgetary comparison of the general fund and four major special revenue funds. This supplementary information is contained behind its own tab following the footnotes to financial statements.

Government-wide Financial Analysis:

The Statement of Net Assets provides an overview of the City's assets, liabilities and net assets. As previously mentioned, this can provide a good indicator of the City's fiscal health. Following is a summarized version of the Statement of Net Assets to provide you with a perspective of the financial position of the City as a whole.

City of Ithaca, Michigan Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and Other Assets	2,715,035	2,409,951	5,228,602	1,321,269	7,943,637	3,731,220
Capital Assets	1,487,147	1,567,115	4,501,721	4,236,506	5,988,868	5,803,621
Total Assets	4,202,182	3,977,066	9,730,323	5,557,775	13,932,505	9,534,841
Liabilities:						
Long Term Debt	104,030	100,643	4,113,162	13,055	4,217,192	113,698
Other Liabilities	232,390	94,041	99,995	9,833	332,385	103,874
Total Liabilities	336,420	194,684	4,213,157	22,888	4,549,577	217,572
Net Assets:						
Invested in capital assets, net of related debt	1,487,147	1,567,115	4,351,150	4,236,506	5,838,297	5,803,621
Restricted	251,398	205,540	0	0	251,398	205,540
Unrestricted	2,127,217	2,009,727	1,166,016	1,298,381	3,293,233	3,308,108
Total Net Assets	3,865,762	3,782,382	5,517,166	5,534,887	9,382,928	9,317,269

The total net assets of the City are \$9,382,928. However, \$5,988,868 represents its investment in capital assets (i.e. land, buildings, equipment, vehicles, water and sewer systems), with 75% being the water supply and sewage disposal systems' infrastructure. These assets are used to provide services to residents; but are not available for future spending nor can they be used to liquidate their liabilities.

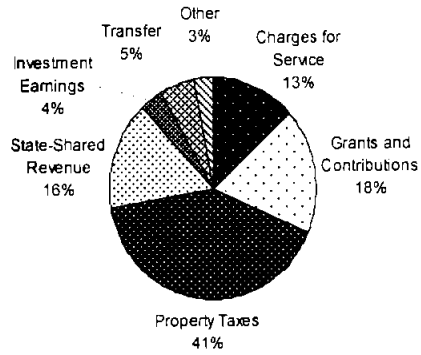
Of the more liquid assets, \$251,398 represents resources and funds that have external restrictions on how they may be used. These assets are held for street maintenance and perpetual care of the city cemetery. The City may use the remaining balance (unrestricted net assets) to meet ongoing obligations to residents and creditors. The total net assets for the year were increased by \$65,659.

City of Ithaca, Michigan Change In Net Assets							
	Governmental Activities			Business-Type Activities		Total	
Revenues:	2007	2006		2007	2006	2007	2006
Program Revenues:							
Charges for Services	292,144	188,770		513,790	526,618	805,934	715,388
Grants and contributions	400,703	497,815		0	0	400,703	497,815
General Revenues:							
Property Taxes	893,355	858,696		183,351	7,241	1,076,706	865,937
State-shared Revenues	353,065	362,799		0	184	353,065	362,983
Investment Earnings	78,983	63,538		74,494	34,233	153,477	97,771
Transfers	117,171	0		(127,171)	0	(10,000)	0
Other	64,414	80,334		15,898	0	80,312	80,334
Total Revenues	2,199,835	2,051,952		660,362	568,276	2,860,197	2,620,228
Expenses:							
General Government	732,085	708,546		0	0	732,085	708,546
Public Safety	662,944	594,360		0	0	662,944	594,360
Public Works	498,873	395,700		0	0	498,873	395,700
Recreation and cultural	220,398	263,390		0	0	220,398	263,390
Interest on long term debt	2,155	2,779		0	0	2,155	2,779
Water and Sewer	0	0		678,083	408,897	678,083	678,083
Total Expenses	2,116,455	1,964,775		678,083	408,897	2,794,538	2,373,672
Change in Net Assets	83,380	87,177		(17,721)	159,379	65,659	246,556
Net Assets – July 1	3,782,382	3,695,205		5,534,887	5,375,508	9,317,269	9,070,713
Net Assets – June 30	3,865,762	3,782,382		5,517,166	5,534,887	9,382,928	9,317,269

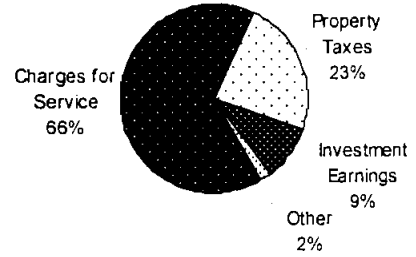
Revenues in the governmental activities and the business-type activities both increased in 2007 by \$239,969. This consisted of an increase of \$147,883 in governmental activities and \$92,086 in business-type activities. Portions of the increase can be attributed to higher interest rates in the market, cash flow management, and charges for contracted emergency services. Revenues are recorded in the statement of activities when earned; however they are not reported in the funds until collected or collectible within 60 days of year-end. At the start and end of the fiscal year, the net assets for both type of activities, as well as the City of Ithaca as a whole, are positive.

The City of Ithaca expended \$2,116,455 in governmental activities and \$678,083 in business-type activities for a total of \$2,794,538 for the fiscal year. The reader should note that some expenses reported in the government-wide perspective do not require the use of current financial resources (i.e. compensated absences) and therefore are not reported as expenditures in the funds. Also on a government-wide perspective, the City depreciates capital assets (individual assets with an initial cost equal or greater than \$5,000 with a useful life of more than one year).

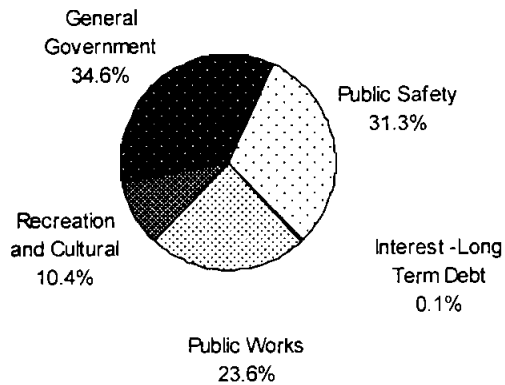
**REVENUES BY SOURCE -
GOVERNMENTAL ACTIVITIES**



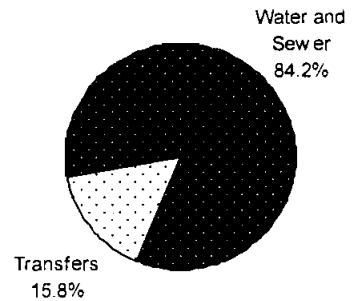
**REVENUES BY SOURCE -
BUSINESS-TYPE ACTIVITIES**



**EXPENSES BY FUNCTION -
GOVERNMENTAL ACTIVITIES**



**EXPENSES BY FUNCTION -
BUSINESS-TYPE ACTIVITIES**



Budgetary Highlights

The City of Ithaca has three main revenue sources, those being property taxes, charges for utility services and State shared revenue, on which the majority of the budget is based. Ithaca continues to have a conservative fiscal philosophy in being good stewards of the public's money. This philosophy has translated into preparing for economic challenges while maintaining the solid foundation of our operations.

The City of Ithaca also writes for and has been very successful in receiving grants to maximize our financial resources for additional unbudgeted projects and/or equipment. Grants are sometimes awarded with a match requirement. In these awards, the City must pay a stated percentage of the grant award which may range from 5%-50%. This year, the City received such grants for emergency services equipment and turnout gear/supplies. The "match" was taken from the fund balance of the appropriate funds, which because of the City's fiscal responsibility, it is able to do.

The annual budget is a forecast for City operations which is based on upcoming projects, five years of actual figures and estimated current expenditures. Throughout the course of the year, events happen which alter the decisions of which the budget figures are based and amendments must be made. The City of Ithaca made amendments to revenues in the governmental activities in the amount of \$174,595 for grants received, a loan repayment, investment interest and special assessment of Fillmore road paving. Further, amendments were made to the business-type activities in the amount of \$4,127,855 for investment interest and the sale of the voted bond proceeds. The City also made amendments to the expenditures in the governmental activities in the amount of \$116,693 for the matching portion of awarded grants, the paving of a city parking lot and two paving projects with the Gratiot County Road Commission and adjoining Townships, reductions for expenses not incurred. The business-type activities had amendments in the amount of \$237,642 which were made for expenses incurred for the bond project.

Economic Forecast

Despite the struggling economy of the State of Michigan, the City of Ithaca maintains a stable economy. The City's modest tax base has grown at a steady but relatively slow pace over the past five years. Serving as the County Seat of Gratiot County, it is anticipated that moderate tax base growth will continue. Nearby Alma College and Central Michigan University, as well as a strong school system and local infrastructure improvements provide considerable stability to our community.

The City of Ithaca is proud to offer two Michigan Renaissance Zones, two industrial parks and three recreational parks to businesses and residents. Michigan agriculture plays an important role in several of the City's retail and manufacturing businesses. The largest to note is the construction of Liberty Renewable Fuels, LLC in the aforementioned Renaissance Zone. This ethanol plant will be Michigan's largest ethanol plant built to date at an estimated cost of \$160 million. The plant is expected to create fifty new jobs after it's completion in 2008. The conservative taxable value estimated on the plant is equal to that of the City in its entirety.

The City continues to maintain positive fund balances in each of its funds, however, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. As previously stated, the major sources of revenue for the City are property taxes, state-shared revenues, and charges for services. These sources have certain limitations outside of the City's control; the State of Michigan is experiencing a budget crisis and has reduced revenue-sharing payments to local governments by over \$600 million to help in reducing its deficit. In comparison, certain expenses continue to rise at a rate higher than inflation (e.g., health care and fuel prices). We are continuing to plan for the long term and will continue to balance the budgets through controls of spending, while still providing the City's residents with the same level of service to which they have become accustomed.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager or the City Clerk-Treasurer at:

City of Ithaca
129 W. Emerson Street
Ithaca, Michigan 48847-1017

Phone: 989/ 875-3200
Facsimile: 989/ 875-4064
Email: ithacacity@charterinternet.com
Website: www.ithacami.com

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

City of Ithaca
Government Wide Statement of Net Assets
June 30, 2007

	PRIMARY GOVERNMENT			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Units</u>
ASSETS				
Cash and investments	\$1,474,298	\$4,885,282	\$6,359,580	\$86,899
Property taxes receivable	852,554	183,291	1,035,845	18,365
Other receivables - net	33,251	134,876	168,127	-
Special assessment receivable	70,337	-	70,337	-
Due from other governments	107,298	-	107,298	-
Internal balances - net	2,147	(147)	2,000	-
Inventories	-	25,300	25,300	-
Notes receivable - net	175,150	-	175,150	-
Capital assets - net	<u>1,487,147</u>	<u>4,501,721</u>	<u>5,988,868</u>	<u>-</u>
Total assets	<u>4,202,182</u>	<u>9,730,323</u>	<u>13,932,505</u>	<u>105,264</u>
LIABILITIES				
Accounts payable	175,814	49,493	225,307	1,272
Accrued and other liabilities	32,086	6,803	38,889	-
Deferred revenues	8,688	-	8,688	-
Accrued interest	-	43,699	43,699	-
Noncurrent liabilities				
Due within one year	15,802	-	15,802	-
Due in more than one year	<u>104,030</u>	<u>4,113,162</u>	<u>4,217,192</u>	<u>-</u>
Total liabilities	<u>336,420</u>	<u>4,213,157</u>	<u>4,549,577</u>	<u>1,272</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,487,147	4,351,150	5,838,297	-
Restricted for				
Streets and highways	227,699	-	227,699	-
Perpetual care	23,699	-	23,699	-
Unrestricted	<u>2,127,217</u>	<u>1,166,016</u>	<u>3,293,233</u>	<u>103,992</u>
Total net assets	<u>\$3,865,762</u>	<u>\$5,517,166</u>	<u>\$9,382,928</u>	<u>\$103,992</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Government Wide Statement of Activities
For The Year Ended June 30, 2007

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			
				Governmental Activities	Business-Type Activities	Total	
Primary Government							
General government	\$732,085	\$81,775	\$10,119	(\$640,191)	-	(\$640,191)	-
Public safety	662,944	136,900	8,340	(517,704)	-	(517,704)	-
Public works	498,873	70,337	272,363	(156,173)	-	(156,173)	-
Recreation and cultural	220,398	3,132	109,881	(107,385)	-	(107,385)	-
Interest on long-term debt	2,155	-	-	(2,155)	-	(2,155)	-
Total governmental activities	2,116,455	292,144	400,703	(1,423,608)	-	(1,423,608)	-
Business-type activities							
Water and Sewer	678,083	513,790	-	-	(\$164,293)	(164,293)	-
Total primary government	\$2,794,538	\$805,934	\$400,703	(1,423,608)	(164,293)	(1,587,901)	
Component units							
Downtown development authority	\$27,270	-	-	-	-	-	(\$27,270)
General Revenues							
Property taxes				893,355	183,351	1,076,706	12,032
State-shared revenues				353,065	-	353,065	-
Unrestricted investment earnings				78,983	74,494	153,477	1,680
Transfers				117,171	(127,171)	(10,000)	10,000
Miscellaneous				64,414	15,898	80,312	1,301
Total general revenues				1,506,988	146,572	1,653,560	25,013
Change in net assets				83,380	(17,721)	65,659	(2,257)
Net assets - beginning of year				3,782,382	5,534,887	9,317,269	106,249
Net assets - end of year				\$3,865,762	\$5,517,166	\$9,382,928	\$103,992

s to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

City of Ithaca
Governmental Funds Balance Sheet
June 30, 2007

ASSETS

Cash and investments
Accounts receivables - net
Notes receivable
Due from other funds
Due from other governments

General Fund	Major Street	Local Street	Library	Economic Development	Fire Operating	Gibbs Memorial	Non-Major Governmental Funds	Total Governmental Funds
\$369,143	\$239,345	\$13,740	\$110,568	\$31,547	\$64,271	\$202,840	\$229,092	\$1,260,546
23,890	-	-	-	-	6,527	-	1,763	32,180
-	-	-	-	175,150	-	-	-	175,150
2,147	-	-	-	-	-	38,382	-	40,529
64,160	33,290	9,848	-	-	-	-	-	107,298
<u>\$459,340</u>	<u>\$272,635</u>	<u>\$23,588</u>	<u>\$110,568</u>	<u>\$206,697</u>	<u>\$70,798</u>	<u>\$241,222</u>	<u>\$230,855</u>	<u>\$1,615,703</u>

Total assets

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable
Accrued liabilities
Due to other funds
Deferred revenue

\$40,619	\$35,004	\$30	\$4,688	-	\$16,241	-	\$10,278	\$106,860
25,895	290	200	2,281	-	442	-	2,265	31,373
-	-	33,000	-	-	-	-	5,382	38,382
-	-	-	-	\$175,150	8,688	-	-	183,838
<u>66,514</u>	<u>35,294</u>	<u>33,230</u>	<u>6,969</u>	<u>175,150</u>	<u>25,371</u>	<u>-</u>	<u>17,925</u>	<u>360,453</u>

Total liabilities

Fund balances

Reserved for perpetual care
Unreserved, undesignated, reported in:
General fund
Special revenue funds

-	-	-	-	-	-	-	23,699	23,699
392,826	-	-	-	-	-	-	-	392,826
-	237,341	(9,642)	103,599	31,547	45,427	\$241,222	189,231	838,725
<u>392,826</u>	<u>237,341</u>	<u>(9,642)</u>	<u>103,599</u>	<u>31,547</u>	<u>45,427</u>	<u>241,222</u>	<u>212,930</u>	<u>1,255,250</u>
<u>\$459,340</u>	<u>\$272,635</u>	<u>\$23,588</u>	<u>\$110,568</u>	<u>\$206,697</u>	<u>\$70,798</u>	<u>\$241,222</u>	<u>\$230,855</u>	<u>\$1,615,703</u>

Total fund balances

Total liabilities and fund balances

to the financial statements are an integral part of this statement.

City of Ithaca
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
To Net Assets of Governmental Activities on the Statement of Net Assets
For the Year Ended June 30, 2007

Total fund balance - governmental funds	\$1,255,250
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	3,650,247
Deduct: accumulated depreciation	(2,505,101)
Long-term portion of special assessment activity is not available in the current period and not due and payable in the current period and therefore is not reported in the funds. That related special assessment activity consists of:	
Add: special assessment receivable	70,337
Deduct: special assessment payable	(66,667)
Internal service funds are used by management to charge the cost of equipment and materials to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	553,824
Property tax revenue that was earned and accrued in the current period but not available is only recognized as revenues in the government wide financial statements.	852,554
Deferred revenues reported in governmental funds balance sheet includes balance of loans receivable. The balance was deferred because funds were not available to pay for current-period expenditures.	175,150
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: notes payable	(32,705)
Deduct: compensated absences	(87,127)
Net assets of governmental activities	<u>\$3,865,762</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2007

	General Fund	Major Street	Local Street	Library	Economic Development	Fire Operating	Gibbs Memorial	Non-Major Governmental Funds	Total Governmental Funds
Revenues									
Taxes and penalties	\$843,410	-	-	-	-	-	-	-	\$843,410
Licenses and permits	51,834	-	-	-	-	-	-	-	51,834
Federal grants	-	-	-	-	-	\$6,090	-	-	6,090
State grants	353,065	\$212,389	\$59,974	\$3,449	-	2,250	-	-	631,127
Charges for services	-	-	-	3,132	-	103,271	-	\$63,570	169,973
Contribution from local units	2,472	-	4,167	-	-	-	-	3,480	10,119
Fines and forfeits	-	-	-	106,432	-	-	-	-	106,432
Interest and rentals	40,913	4,168	208	8,007	\$228	1,529	\$9,211	5,162	69,426
Other revenues	44,361	-	4,740	9,022	1,500	3,971	-	2,320	65,914
Total revenues	1,336,055	216,557	69,089	130,042	1,728	117,111	9,211	74,532	1,954,325
Expenditures									
Current									
General government	655,222	-	-	-	-	-	-	62,472	717,694
Public safety	399,247	-	-	-	-	145,928	-	67,008	612,183
Public works	64,772	194,997	172,437	-	-	-	-	-	432,206
Recreation and cultural	85,842	-	-	129,706	-	-	-	-	215,548
Debt service	-	-	-	-	-	-	-	16,909	16,909
Total expenditures	1,205,083	194,997	172,437	129,706	-	145,928	-	146,389	1,994,540
Excess of revenues over (under) expenditures	130,972	21,560	(103,348)	336	1,728	(28,817)	9,211	(71,857)	(40,215)
Other financing sources (uses)									
Transfers in	127,171	127,171	63,628	-	-	64,156	-	130,726	512,852
Transfers out	(277,775)	(63,628)	-	-	-	(36,909)	-	(17,369)	(395,681)
Total other financing sources (uses)	(150,604)	63,543	63,628	-	-	27,247	-	113,357	117,171
Excess of revenues and other sources over (under) expenditures and other uses	(19,632)	85,103	(39,720)	336	1,728	(1,570)	9,211	41,500	76,956
Fund Balance, beginning of year	412,458	152,238	30,078	103,263	29,819	46,997	232,011	171,430	1,178,294
Fund Balance, end of year	\$392,826	\$237,341	(\$9,642)	\$103,599	\$31,547	\$45,427	\$241,222	\$212,930	\$1,255,250

Notes to the financial statements are an integral part of this statement.

City of Ithaca
Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds	\$76,956
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	7,023
Deduct: depreciation expense	(113,013)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year-end.	52,115
Internal service funds are used by management to charge the cost of certain activities, such as equipment rents and material usage, to individual funds. The net revenue of the internal service funds is reported with governmental activities.	64,552
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	14,754
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: increase in accrual for compensated absences	<u>(19,007)</u>
Change in net assets of governmental activities	<u><u>\$83,380</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
Assets	Water and Sewer	
Current assets		
Cash and investments	\$4,885,282	\$213,752
Trade accounts receivable - net	134,876	1,071
Property taxes receivable	183,291	-
Inventory of supplies, at cost	25,300	-
Total current assets	<u>5,228,749</u>	<u>214,823</u>
Noncurrent assets		
Deferred charges		
Bond discount, net of amortization	41,000	-
Capital assets		
Water and sewer system		
Machinery and equipment	6,541,040	1,005,029
Less: accumulated depreciation	<u>(2,080,319)</u>	<u>(663,028)</u>
Total noncurrent assets	<u>4,501,721</u>	<u>342,001</u>
Total assets	<u>9,730,470</u>	<u>556,824</u>
Liabilities		
Current liabilities		
Accounts payable	49,493	2,287
Accrued payroll and payroll taxes	6,803	713
Accrued interest	43,699	-
Due to other funds	147	-
Total current liabilities	<u>100,142</u>	<u>3,000</u>
Long-term liabilities		
Bonds payable	4,100,000	-
Customer deposits	13,162	-
Net long-term liabilities	<u>4,113,162</u>	<u>-</u>
Total liabilities	<u>4,213,304</u>	<u>3,000</u>
Net assets		
Invested in capital assets, net of related debt	4,351,150	342,001
Unreserved	1,166,016	211,823
Total net assets	<u>\$5,517,166</u>	<u>\$553,824</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2007

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
	Water and Sewer	
Operating revenues		
Water and sewer sales	\$496,489	-
Penalties and interest charges	7,786	-
Installation and other charges	7,235	\$1,321
Service charges	2,280	199,135
Property taxes	183,351	-
	<u>697,141</u>	<u>200,456</u>
Total operating revenues		
Operating expenses		
Personal services	188,641	22,362
Contractual services	146,206	818
Utilities	1,944	8,150
Repairs and maintenance	14,594	9,173
Other supplies and expenses	132,093	76,744
Depreciation	150,406	70,215
Debt service		
Interest expense	43,699	-
Debt service costs	500	-
	<u>678,083</u>	<u>187,462</u>
Total operating expenses		
Operating income (loss)	<u>19,058</u>	<u>12,994</u>
Nonoperating revenues (expenses)		
Interest revenue	74,494	9,557
Gain on sale of fixed assets	-	42,001
Federal sources	15,898	-
	<u>90,392</u>	<u>51,558</u>
Total nonoperating revenues (expenses)		
Income before contributions and transfers out	109,450	64,552
Transfers	<u>(127,171)</u>	<u>-</u>
Change in net assets	(17,721)	64,552
Total net assets, beginning of year	<u>5,534,887</u>	<u>489,272</u>
Total net assets, end of year	<u><u>\$5,517,166</u></u>	<u><u>\$553,824</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
	Water and Sewer	
Cash flows from operating activities		
Receipts from customers	\$501,421	\$199,574
Payments to suppliers / outsiders	(245,030)	(95,818)
Payments to employees	(186,058)	(22,529)
Internal activity - receipts from other funds	-	(51)
Other receipts - taxes	60	-
Net cash provided by operating activities	70,393	81,176
Cash flows from noncapital financing activities		
Transfers from other funds	(127,033)	-
Grants received	15,898	-
Net cash provided by noncapital financing activities	(111,135)	-
Cash flows from capital and related financing activities		
Purchases of capital assets	(374,621)	(96,237)
Sale of capital assets	-	42,001
Sale of bonds	4,059,000	-
Debt service costs	(500)	-
Net cash provided by (used in) capital and related financing activities	3,683,879	(54,236)
Cash flows from investing activities		
Interest revenue	74,494	9,557
Net increase in cash and cash equivalents	3,717,631	36,497
Cash and cash equivalents, beginning of year	1,167,651	177,255
Cash and cash equivalents, end of year	\$4,885,282	\$213,752
Reconciliation of operating income (loss) to net cash provided (used) by Operating Activities		
Operating income (loss)	\$19,058	\$12,994
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	150,406	70,215
Change in assets and liabilities		
Receivables - net	(195,767)	(882)
Inventories	5,927	-
Debt issuance costs	500	-
Accounts and other payables	90,269	(1,151)
Net cash provided by operating activities	\$70,393	\$81,176

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Net Assets - Fiduciary Funds
June 30, 2007

	<u>Agency Fund</u>
Assets	
Cash and equivalents	<u>\$11,069</u>
Total assets	<u><u>\$11,069</u></u>
Liabilities	
Accounts payable	\$9,069
Due to other funds	<u>2,000</u>
Total liabilities	<u><u>\$11,069</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Net Assets - Component Units
June 30, 2007

	<u>Downtown Development Authority</u>
Assets	
Cash and investments	\$86,899
Property taxes receivable	<u>18,365</u>
 Total assets	 <u>105,264</u>
 Liabilities	
Accounts payable	1,272
 Net Assets	
Unrestricted	<u>103,992</u>
 Total net assets	 <u><u>\$103,992</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Activities - Component Units
For the Year Ended June 30, 2007

Functions / Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services Operating Grants	
Downtown Development Authority			
General government	\$27,270	-	(\$27,270)
General Revenues			
Property taxes			12,032
Unrestricted interest and investment earnings			1,680
Transfers			10,000
Miscellaneous			1,301
Total general revenues			25,013
Change in net assets			(2,257)
Net assets, beginning of year			106,249
Net assets, end of year			\$103,992

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

City of Ithaca
Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Ithaca (the City) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the City.

Reporting Entity

The City of Ithaca, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Discretely Presented Component Units

The following component units are reported within the component unit column in the combined financial statements. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Downtown Development Authority - The Ithaca Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of thirteen individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. The City is financially accountable for the Downtown Development Authority's activities.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Ithaca
Notes to Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to consumers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

City of Ithaca
Notes to Financial Statements

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Fiduciary Fund Financial Statements – Fiduciary funds account for assets held by the City as a trustee or agency capacity on behalf of others and, therefore, are not available to support City operations. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the City available to support City's operations. The City currently maintains an agency fund to account for the monies collected and paid to various governmental entities for property tax collections and employee withholdings.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state revenue sharing revenues that are restricted for use on local streets.

The Library Fund accounts for the resources of library revenues that are restricted for the operations of the City's library.

The Economic Development Fund accounts for resources used to promote economic development of the City.

City of Ithaca
Notes to Financial Statements

The Fire Fund accounts for resources used to provide fire services to residents of the City of Ithaca and surrounding townships.

The Gibbs Memorial Fund accounts for resources to fund special projects.

The City reports the following major proprietary funds:

The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Internal service funds account for major machinery and equipment purchases, as well as material purchases, provided to other departments of the City on a cost reimbursement basis.

Assets, Liabilities, and Net Assets or Equity

Cash and cash equivalents

The City's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Property Taxes

The City's property tax is levied on August 1st and December 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

City of Ithaca
Notes to Financial Statements

Although the City's 2006 ad valorem tax is levied and collectible on August 1st and December 1st, 2006, it is the City's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 taxable valuation of property located in the City totaled \$55.7 million, on which ad valorem taxes levied consisted of 14.2505 mills for operating purposes and 1.4699 mills for emergency service, raising \$728 thousand for operating purposes, and \$75 thousand for emergency services. These amounts are recognized in the general fund as tax revenues.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to / from other funds". Activity between funds that is representative of lending / borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

All trade receivables are shown as net of allowance for uncollectible amounts.

Inventories

Inventories are valued at cost, on a first-in, first-out basis, for the City's business-type activities. For all other funds, the City does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was incurred or capitalized.

City of Ithaca
Notes to Financial Statements

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Operating Equipment	3 – 20
Computer Equipment	3 – 5
Vehicles	7-10
Buildings and Improvements	20-50
Infrastructure	25
Land	Not Applicable – Not Depreciated

Compensated Absences (Vacation and Sick Leave)

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. These compensated absences are accrued in the government-wide financial statements.

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

City of Ithaca
Notes to Financial Statements

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the first day of March of each year, a proposed budget for the next fiscal year is submitted to the budget officer. The budget officer compiles such information and submits it to the council, along with recommendations, no later than the second council meeting in April of each year. This operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following July 1st. The council holds public hearings and final budgets are adopted prior to July 1st.

Prior to July 1st, the budget is legally enacted pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978, as amended).

The City Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, council must approve any revisions that alter the total expenditures of any fund.

Formal budgetary integration is employed as a management control device during the year. The City does not maintain a formalized encumbrance accounting system.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is at the function level.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as shown as negative variances in the Budgetary Comparison Schedules in this report.

Deficit Balance

The City has an accumulated fund balance deficit in the Local Street fund as of June 30, 2007. This deficit is anticipated to be funded with future revenues, reduced expenses, and possibly transfers from other funds during the 2008 fiscal year.

City of Ithaca
Notes to Financial Statements

NOTE 3 – DETAIL NOTES

Cash and Investments

The City has designated six banks for the deposit of City funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in:

- Bonds, securities and other obligations of the United States Government
- Certificates of deposit, savings accounts, and deposit accounts
- United States government or federal agency obligation repurchase agreements

The City's deposits and investment policy are in accordance with statutory authority.

At year end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business- Type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash and equivalents	\$1,141,574	\$3,806,687	\$4,948,261	\$11,069	\$71,117
Investments	332,724	1,078,595	1,411,319	-	15,782
Totals	\$1,474,298	\$4,885,282	\$6,359,580	\$11,069	\$86,899

The bank balance of the primary government's deposits is \$6,353,027, of which \$460,899 is covered by federal depository insurance. The remaining amount is uninsured and uncollateralized. The component units' deposits had a bank balance of \$71,047, of which all is covered by federal depository insurance. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

City of Ithaca
Notes to Financial Statements

Investments

As of June 30, 2007, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (years)	Fitch's Rating	%
Michigan Cooperative Liquid Assets Securities System (Michigan CLASS)	\$1,411,319	.0027	AAA-V1	100%
Total fair value	\$1,411,319			
Portfolio weighted average maturity		.0027		
1 day maturity equals 0.0027, one year equals 1.00				

Interest rate risk. In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. See above for amount of deposits held by the City that are exposed to custodial credit risk because it is uninsured and uncollateralized.

City of Ithaca
Notes to Financial Statements

Custodial credit risk – investments. For an investment, it is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.

Receivables

Receivables as of year-end for the City's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Local Street Fund	Fire Operating Fund	Non-Major and other funds	Internal Service Fund	Total
Accounts	\$6,290	-	-	\$6,527	\$1,763	\$1,071	\$15,651
Sale of Westwind Estates	17,600	-	-	-	-	-	17,600
Special Assessments	70,337	-	-	-	-	-	70,337
Intergovernmental	64,160	\$33,290	\$9,848	-	-	-	107,298
Water and Sewer Billings	-	-	-	-	-	-	-
Equipment Rental Billings	-	-	-	-	-	-	-
Totals	\$158,387	\$33,290	\$9,848	\$6,527	\$1,763	\$1,071	\$210,886

Additionally, the economic development fund reports \$175,150 of notes receivable as of June 30th.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of deferred revenue are as follows:

	Unavailable	Unearned
Note receivable	\$175,150	-
Grant receivable	-	\$8,688
Totals	\$175,150	\$8,688

City of Ithaca
Notes to Financial Statements

Interfund Receivables, Payables and Transfers - The composition of interfund balances is as follows:

Fund	Interfund Receivables	Interfund Payables
General	\$2,147	-
Local Street	-	\$33,000
First Responder	-	5,382
Gibbs Memorial	38,382	-
Water/Sewer	-	147
Trust & Agency	-	2,000
Totals	\$40,529	\$40,529

Transfers between funds during the year were as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Major Street	General	\$127,171
Fire Operating		64,156
Cemetery Operating		41,000
First Responder		35,448
Downtown Dev. Auth.		<u>10,000</u>
Sub-total		277,775
Local Street	Major Street	63,628
Cemetery Operating	Cemetery Perpetual Care	584
	Cemetery Sinking	<u>12,785</u>
Sub-total		13,369
General	Water/Sewer	127,171
Fire / Rescue Sinking	Fire Operating	36,909
	First Responder	<u>4,000</u>
Sub-total		40,909
Total Interfund Transfers		\$522,852

Transfers are used to provide resources from unrestricted general fund revenues to finance various programs accounted for in other funds, in accordance with budgetary authorizations. In addition, the major street fund is allowed under Act 51 to share a portion of its gas and weight tax revenues with the local street fund. The cemetery fund transfers are used to provide resources for cemetery operations. The first responder / fire and rescue sinking fund transfers are used to provide resources for fire operations and debt service payments.

City of Ithaca
Notes to Financial Statements

Capital Assets

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Land	\$154,758	-	-	\$154,758
Buildings	1,597,901	-	-	1,597,901
Equipment / Vehicles	2,953,972	\$96,237	(\$125,000)	2,925,209
Infrastructure	-	7,023	-	7,023
Subtotal	4,706,631	103,260	(125,000)	4,684,891
Less Accumulated Depreciation	(3,139,516)	(183,228)	125,000	(3,197,744)
Net Capital Assets Being Depreciated	1,412,357	(79,968)	-	1,332,389
Governmental Activities Total Capital Assets – Net of Depreciation	\$1,567,115	(\$79,968)	-	\$1,487,147

	Beginning Balance	Increases	Decreases	Ending Balance
Business Type Activities				
Land	\$14,432	-	-	\$14,432
Water & Sewer System	6,151,987	\$374,621	-	6,526,608
Subtotal	6,166,419	-	-	6,541,040
Less Accumulated Depreciation				
Water & Sewer System	(1,929,913)	(150,406)	-	(2,080,319)
Net Capital Assets Being Depreciated	4,222,074	224,215	-	4,446,289
Business-Type Activities Total Capital Assets – Net of Depreciation	\$4,236,506	\$224,215	-	\$4,460,721

City of Ithaca
Notes to Financial Statements

Capital assets not being depreciated include land. Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$57,402
Public Safety	50,761
Recreation and Culture	4,850
Internal Service Fund	70,215
Total Governmental Activities	\$183,228
Business-Type Activities	
Water and Sewer	\$150,406
Total Business-Type Activities	\$150,406

The City is considered a "Phase 3" Government, as defined by GASB 34. Accordingly, the City has elected to not retroactively apply the reporting of major general infrastructure assets.

Long-Term Debt

The City's long-term debt as of June 30, 2007 is as follows:

Compensated Absences - City policy allows employees to accumulate vacation at the rate of ½ day per month for the first 4 years of service and 1 day per month thereafter. Additional days of vacation are awarded on the employee's anniversary date after 4, 8, 15, and 20 years of service. Amounts accumulated up to a maximum of 25 days for city employees, and 44 days for police officers, are to be paid to the employee and recognized as an expense either when vacations are taken or upon termination of employment. Vacation pay liability at June 30, 2007 and 2006 was \$42,706 and \$27,305, respectively.

City policy allows employees to accumulate one sick leave day per month with a maximum accumulation of 60 days. Sick leave expenses are recognized at the time the days are used, or upon termination of employment. Upon termination of employment, with the exception of gross misconduct, 100% or 50% of accumulated sick pay will be paid to the employee, depending on their date of hire. Sick leave pay liability at June 30, 2007 and 2006 was \$44,421 and \$40,815, respectively.

City of Ithaca
Notes to Financial Statements

Note Payable – The Note Payable consists of a fire truck loan due in annual installments of \$16,909 through October 2008. Interest is at 4.46% per annum. As of June 30, 2007 and 2006, the balance of this note payable is \$47,459 and \$61,588, respectively.

Debt balances and transactions for the year ended June 30, 2007 are as follows for this note payable:

	Balance 7-1-2006	Additions	Retirements	Balance 6-30-2007	Due Within One Year
Fire Truck Note Payable	\$47,459	\$-	(\$14,754)	\$32,705	\$15,802

Enterprise Fund Bonds

Bonds payable at June 30, 2007 consist of the \$4,100,000 Unlimited Tax General Obligation Bonds due in annual installments of \$170,000 to \$210,000 through November 2037. Interest is at annual rates of 4.25% to 4.40%. The bond proceeds were used to improve and extend the City's Water Supply and Sewage Disposal System.

Debt balances and transactions for the year ended June 30, 2007 are as follows for the enterprise fund bonds:

	Balance 7-1-2006	Additions	Retirements	Balance 6-30-2007	Due Within One Year
Refunding Bonds	\$-	\$4,100,000	\$-	\$4,100,000	\$-
Deferred Amount on Bond Issuance	-	(41,000)	-	(41,000)	(1,367)
Total	\$-	\$4,059,000	\$-	\$4,059,000	(\$1,367)

Issuance of Debt

On April 1, 2007, the City issued the 2007 Unlimited Tax General Obligation Bonds. These bonds were sold at a discount of \$41,000, which was recorded as a deferred asset. The deferred asset will be amortized as an expense over the remaining life of the bond, which amounts to \$1,367 per year, for a total of 30 years.

City of Ithaca
Notes to Financial Statements

Annual debt service requirements to maturity for the above note payable and enterprise fund bonds are as follows:

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2008	\$15,802	\$175,902
2009	16,903	174,983
2010	-	174,795
2011	25,000	174,795
2012	60,000	173,733
2013-2017	375,000	826,162
2018-2022	515,000	735,638
2023-2027	750,000	607,288
2028-2032	1,045,000	423,262
2033-2037	1,330,000	177,470
Totals	\$4,132,705	\$3,644,028

Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Employee Retirement and Benefit Systems

MERS Defined Benefit Pension Plan

Plan Description

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers some of the City's regular full-time employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

City of Ithaca
Notes to Financial Statements

The most recent period for which actuarial data was available was for the year ended December 31, 2006. The City's payroll for the employees covered by the system for the year ended December 31, 2006 was \$428,217.

As of December 31, 2006, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	14
Active plan participants – vested	11
Vested former members	5
Total	30

Funding Policy

Under the provisions of this plan, members contribute 4.7% of annual compensation. If a member leaves the municipality, or dies, without a retirement allowance or other benefit payable on his / her account, his / her accumulated contributions will be refunded to him / her, if living, or to his / her nominated beneficiary.

Benefit programs and provisions are established by the Retirement Board. All benefits vest after 10 years of service, except that benefits may vest after eight or six years of service if adopted by the municipality's governing body. The standard retirement age is 60 years; however, members may retire with several combinations of age and years of service and receive reduced early retirement benefits. Municipalities may adopt various other benefit programs which allow retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provides non-duty disability and death benefits to members after vesting requirements are met.

Funding Status and Progress

The amount shown below as the "pension benefit obligation" is based on the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and separate benefits, estimated to be payable in the future as a result of employee services to date. The measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

City of Ithaca
Notes to Financial Statements

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2006. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0% and (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

At December 31, 2006, the assets were less than the pension benefit obligation by \$813,450, determined as follows:

GASB 25 Information	
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$2,252,597
Terminated employees not yet receiving benefits	154,183
Current Employees:	
Accumulated employee contributions including Allocated investment income	314,051
Employer financed	900,777
Total actuarial accrued liability	3,621,745
Net assets available for benefits at actuarial value (market = \$2,847,580)	2,808,295
Unfunded actuarial accrued liability	\$813,450
GASB 27 Information	
Fiscal Year Beginning	July 1, 2008
Annual Required Contribution (ARC)	\$95,292
Amortization factor used – under-funded liabilities (30 years)	.085453

Three year trend information as of June 30 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UAAL as a Percentage of Covered payroll
12-31-04	2,509,197	3,076,357	(567,160)	82%	627,143	90%
12-31-05	2,664,287	3,165,313	(501,026)	84%	596,323	84%
12-31-06	2,808,295	3,621,745	(813,450)	78%	428,217	190%

City of Ithaca
Notes to Financial Statements

MERS Defined Contribution Plan

Plan Description

The City of Ithaca also participates in the MERS Uniform Defined Contribution Program.

Various full-time employees of the City are eligible to participate in the plan. As of June 30, 2007, the plan's current membership was 5 employees.

A defined contribution plan provides retirement benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. The amounts participant's receive depend solely on the amounts contributed to the participant's account and the returns earned on those contributions.

Funding Policy

Participants contribute between 1% - 5% of their annual salary. The City matches participant contribution percentages, plus one additional percentage. City contributions, therefore, range between 2% - 6% of each participant's annual salary. Participants are 100% vested in the employer contributions after five years of service with the City.

During the year, the actual contributions to the plan amounted to \$19,478, which includes \$10,624 of employer contributions, and \$8,854 of employee contributions.

REQUIRED SUPPLEMENTARY INFORMATION

City of Ithaca
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2007

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes and penalties	\$847,127	\$847,127	\$843,410	(\$3,717)
Licenses and permits	51,400	51,400	51,834	434
State grants	347,388	347,388	353,065	5,677
Contribution from local units	-	2,495	2,472	(23)
Interest and rentals	37,700	37,700	40,913	3,213
Other revenues	62,350	61,750	44,361	(17,389)
Total revenues	1,345,965	1,347,860	1,336,055	(11,805)
Expenditures				
Current				
General government	647,823	651,323	655,222	(3,899)
Public safety	360,005	361,605	399,247	(37,642)
Public works	60,880	60,880	64,772	(3,892)
Recreation and cultural	84,070	84,070	85,842	(1,772)
Capital outlay	-	29,500	-	29,500
Total expenditures	1,152,778	1,187,378	1,205,083	(17,705)
Excess of revenues over (under) expenditures	193,187	160,482	130,972	(29,510)
Other financing sources (uses)				
Transfers in	127,171	127,171	127,171	-
Transfers out	(277,775)	(277,775)	(277,775)	-
Total other financing sources (uses)	(150,604)	(150,604)	(150,604)	-
Excess of revenues and other sources over (under) expenditures and other uses	42,583	9,878	(19,632)	(29,510)
Fund Balance, beginning of year	412,458	412,458	412,458	-
Fund Balance, end of year	\$455,041	\$422,336	\$392,826	(\$29,510)

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Budgetary Comparison Schedule for the Major Street Fund
For the Year Ended June 30, 2007

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
State grants	\$241,699	\$241,699	\$212,389	(\$29,310)
Interest and rentals	3,000	3,000	4,168	1,168
Other revenues	-	4,240	-	(4,240)
Total revenues	244,699	248,939	216,557	(32,382)
Expenditures				
Current				
Public works	201,247	204,877	194,997	9,880
Total expenditures	201,247	204,877	194,997	9,880
Excess of revenues over (under) expenditures	43,452	44,062	21,560	(22,502)
Other financing sources (uses)				
Transfers in	-	127,171	127,171	-
Transfers out	(48,576)	(48,576)	(63,628)	(15,052)
Total other financing sources (uses)	(48,576)	78,595	63,543	(15,052)
Excess of revenues and other sources over (under) expenditures and other uses	(5,124)	122,657	85,103	(37,554)
Fund Balance, beginning of year	152,238	152,238	152,238	-
Fund Balance, end of year	<u>\$147,114</u>	<u>\$274,895</u>	<u>\$237,341</u>	<u>(\$37,554)</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Local Street Fund
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State grants	\$66,269	\$66,269	\$59,974	(\$6,295)
Contribution from local units	-	-	4,167	4,167
Interest and rentals	300	300	208	(92)
Other revenues	-	9,167	4,740	(4,427)
Total revenues	66,569	75,736	69,089	(6,647)
Expenditures				
Current				
Public works	194,368	194,368	172,437	21,931
Total expenditures	194,368	194,368	172,437	21,931
Excess of revenues over (under) expenditures	(127,799)	(118,632)	(103,348)	15,284
Other financing sources (uses)				
Transfers in	48,576	48,576	63,628	15,052
Total other financing sources (uses)	48,576	48,576	63,628	15,052
Excess of revenues and other sources over (under) expenditures and other uses	(79,223)	(70,056)	(39,720)	30,336
Fund Balance, beginning of year	30,078	30,078	30,078	-
Fund Balance, end of year	<u>(\$49,145)</u>	<u>(\$39,978)</u>	<u>(\$9,642)</u>	<u>\$30,336</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Library Fund
 For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State sources	\$6,900	\$6,900	\$3,449	(\$3,451)
Charges for services	2,000	2,035	3,132	1,097
Fines and forfeits	106,165	106,165	106,432	267
Interest and rentals	7,400	7,400	8,007	607
Other revenues	<u>6,800</u>	<u>6,800</u>	<u>9,022</u>	<u>2,222</u>
Total revenues	129,265	129,300	130,042	742
Expenditures				
Current				
Recreation and cultural	<u>142,300</u>	<u>142,300</u>	<u>129,706</u>	<u>12,594</u>
Total expenditures	<u>142,300</u>	<u>142,300</u>	<u>129,706</u>	<u>12,594</u>
Excess of revenues over (under) expenditures	(13,035)	(13,000)	336	13,336
Fund Balance, beginning of year	<u>103,263</u>	<u>103,263</u>	<u>103,263</u>	<u>-</u>
Fund Balance, end of year	<u><u>\$90,228</u></u>	<u><u>\$90,263</u></u>	<u><u>\$103,599</u></u>	<u><u>\$13,336</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Economic Development Fund
 For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest and rentals	\$200	\$200	\$228	\$28
Other revenues	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>-</u>
Total revenues	1,700	1,700	1,728	28
Expenditures				
Current				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	1,700	1,700	1,728	28
Fund Balance, beginning of year	<u>29,819</u>	<u>29,819</u>	<u>29,819</u>	<u>-</u>
Fund Balance, end of year	<u>\$31,519</u>	<u>\$31,519</u>	<u>\$31,547</u>	<u>\$28</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Fire Operating Fund
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Federal grants	-	\$26,042	\$6,090	(\$19,952)
State grants	-	2,250	2,250	-
Charges for services	\$103,271	103,271	103,271	-
Interest and rentals	-	-	1,529	1,529
Other revenues	-	-	3,971	3,971
Total revenues	103,271	131,563	117,111	(14,452)
Expenditures				
Current				
Public safety	158,581	160,181	145,928	14,253
Total expenditures	158,581	160,181	145,928	14,253
Excess of revenues over (under) expenditures	(55,310)	(28,618)	(28,817)	(199)
Other financing sources (uses)				
Transfers in	64,156	64,156	64,156	-
Transfers out	(36,909)	(36,909)	(36,909)	-
Total other financing sources (uses)	27,247	27,247	27,247	-
Excess of revenues and other sources over (under) expenditures and other uses	(28,063)	(1,371)	(1,570)	(199)
Fund Balance, beginning of year	46,997	-	46,997	46,997
Fund Balance, end of year	<u>\$18,934</u>	<u>(\$1,371)</u>	<u>\$45,427</u>	<u>\$46,798</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Gibbs Memorial Fund
 For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Interest and rentals	\$3,500	\$3,500	\$9,211	\$5,711
Other revenues	<u>-</u>	<u>5,382</u>	<u>-</u>	<u>-</u>
Total revenues	3,500	8,882	9,211	5,711
Expenditures				
Current				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	3,500	8,882	9,211	5,711
Fund Balance, beginning of year	<u>232,011</u>	<u>232,011</u>	<u>232,011</u>	<u>-</u>
Fund Balance, end of year	<u>\$235,511</u>	<u>\$240,893</u>	<u>\$241,222</u>	<u>\$5,711</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTARY INFORMATION

City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2007

	SPECIAL REVENUE FUNDS				
	Cemetery Operating	First Responder	Cemetery Sinking	Fire & Rescue Sinking	Crime Prevention
Assets					
Cash and cash equivalents	\$33,897	\$46,061	\$30,753	\$92,434	\$227
Accounts receivables - net	100	1,663	-	-	-
Total assets	<u>\$33,997</u>	<u>\$47,724</u>	<u>\$30,753</u>	<u>\$92,434</u>	<u>\$227</u>
Liabilities and fund equity					
Accounts payable	\$8,560	\$1,718	-	-	-
Accrued liabilities	2,265	-	-	-	-
Due to other funds	-	5,382	-	-	-
Total liabilities	<u>10,825</u>	<u>7,100</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance					
Unreserved, undesignated	23,172	40,624	\$30,753	\$92,434	\$227
Total fund equity	<u>23,172</u>	<u>40,624</u>	<u>30,753</u>	<u>92,434</u>	<u>227</u>
Total liabilities and fund equity	<u>\$33,997</u>	<u>\$47,724</u>	<u>\$30,753</u>	<u>\$92,434</u>	<u>\$227</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2007

	SPECIAL REVENUE FUNDS				Permanent Fund	
	Crime Victim's Rights	Drug Law Enforcement	Police Education & Training	Cemetery Perpetual Care	Totals	
Assets						
Cash and cash equivalents	\$125	\$1,120	\$776	\$23,699	\$229,092	
Accounts receivables - net	-	-	-	-	1,763	
Total assets	<u>\$125</u>	<u>\$1,120</u>	<u>\$776</u>	<u>\$23,699</u>	<u>\$230,855</u>	
Liabilities and fund equity						
Accounts payable	-	-	-	-	\$10,278	
Accrued liabilities	-	-	-	-	2,265	
Due to other funds	-	-	-	-	5,382	
Total liabilities	-	-	-	-	17,925	
Fund balance						
Reserved for perpetual care	-	-	-	\$23,699	23,699	
Unreserved, undesignated	\$125	\$1,120	\$776	-	189,231	
Total fund equity	<u>125</u>	<u>1,120</u>	<u>776</u>	<u>23,699</u>	<u>212,930</u>	
Total liabilities and fund equity	<u>\$125</u>	<u>\$1,120</u>	<u>\$776</u>	<u>\$23,699</u>	<u>\$230,855</u>	

o the financial statements are an integral part of this statement.

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2007

	SPECIAL REVENUE FUNDS				
	Cemetery Operating	First Responder	Cemetery Sinking	Fire & Rescue Sinking	Crime Prevention
Revenues					
Charges for services	\$19,991	\$33,629	\$9,950	-	-
Contribution from local units	-	3,480	-	-	-
Interest and rentals	757	1,702	723	\$1,396	-
Other revenues	-	1,195	-	-	-
Total revenues	20,748	40,006	10,673	1,396	-
Expenditures					
Current					
General government	62,472	-	-	-	-
Public safety	-	63,865	-	-	-
Debt service	-	-	-	16,909	-
Total expenditures	62,472	63,865	-	16,909	-
Excess of revenues over (under) expenditures	(41,724)	(23,859)	10,673	(15,513)	-
Other financing sources (uses)					
Transfers in	54,369	35,448	-	40,909	-
Transfers out	-	(4,000)	(12,785)	-	-
Total other financing sources (uses)	54,369	31,448	(12,785)	40,909	-
Excess of revenues and other sources over (under) expenditures and other uses	12,645	7,589	(2,112)	25,396	-
Fund Balance, beginning of year	10,527	33,035	32,865	67,038	\$227
Fund Balance, end of year	\$23,172	\$40,624	\$30,753	\$92,434	\$227

to the financial statements are an integral part of this statement.

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2007

	SPECIAL REVENUE FUNDS				Permanent Fund	
	Crime Victim's Rights	Drug Law Enforcement	Police Education & Training	Cemetery Perpetual Care		Totals
Revenues						
Charges for services	-	-	-	-		\$63,570
Contribution from local units	-	-	-	-		3,480
Interest and rentals	-	-	-	\$584		5,162
Other revenues	-	-	\$650	475		2,320
Total revenues	-	-	650	1,059		74,532
Expenditures						
Current						
General government	-	-	-	-		62,472
Public safety	-	-	3,143	-		67,008
Debt service	-	-	-	-		16,909
Total expenditures	-	-	3,143	-		146,389
Excess of revenues over (under) expenditures	-	-	(2,493)	1,059		(71,857)
Other financing sources (uses)						
Transfers in	-	-	-	-		130,726
Transfers out	-	-	-	(584)		(17,369)
Total other financing sources (uses)	-	-	-	(584)		113,357
Excess of revenues and other sources over (under) expenditures and other uses	-	-	(2,493)	475		41,500
Fund Balance, beginning of year	\$125	\$1,120	3,269	23,224		171,430
Fund Balance, end of year	\$125	\$1,120	\$776	\$23,699		\$212,930

to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

City Council
City of Ithaca
Ithaca, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ithaca (the City) as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2007-1, is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated October 8, 2007.

The City of Ithaca's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

October 8, 2007

Schedule of Findings and Responses

Finding 2007-1

Finding considered a significant deficiency

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended June 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. The staff of the City does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



Management Letter

City of Ithaca
Ithaca, Michigan

In planning and performing our audit of the financial statements of the City of Ithaca for the fiscal year ended June 30, 2007, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated October 8, 2007 on the financial statements of the City of Ithaca.

Sincerely,

Roslund, Prestage & Co, P.C.
Roslund, Prestage & Company, P.C.
Certified Public Accountants

October 8, 2007

Time Sheet Approval

During our audit, we found that certain time sheets were not approved by a supervisor or another member of management. We recommend that all time sheets are approved by a supervisor or another responsible person (separate from the employee themselves) that has the knowledge of the employee's actual time.

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the City consider the effects of GASB 45 on any current or future postemployment benefits packages. The effective date for the City to implement this new standard is for the fiscal year ending June 30, 2010. However, earlier application is encouraged by the GASB.

Infrastructure Assets

With the implementation of GASB 34, governmental units are now required to report infrastructure assets in their financial statements. Examples of infrastructure assets include roads, highways, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

Because of the volume of revenue reported in the financial statements of the City, retroactively reporting of all infrastructure assets is not required. However, the City is required to prospectively report these assets beginning on the date of implementation of GASB 34. During the 2007 fiscal year, the City received a grant to enhance the downtown area and issued bonds in order to improve and extend the City's water supply and sewage disposal system. We recommend the City to continue to closely monitor these expenses to facilitate capitalizing and depreciating infrastructure assets.